

THE OFFICE & FUNCTIONS OF THE LEGISLATIVE FISCAL ANALYST

The Office of The Legislative Fiscal Analyst produces: the annual budgets required by the legislature (both prospective and supplemental), fiscal notes on all bills introduced for a session, the appropriations bills, The Annual Appropriation Report, such global studies as required by legislative leadership, the Interim Appropriation Committees and area studies required by the various analysts as a part of their budget review process. These activities are under the general statutory charge as follows:

36-12-13. Office of Legislative Fiscal Analyst established - Powers, functions, and duties -

(2) The powers, functions, and duties of the Office of Legislative Fiscal Analyst under the supervision of the Fiscal Analyst are:

- (a) to analyze in detail the executive budget before the convening of each legislative session and make recommendations to the Legislature on each item or program appearing in the executive budget;
- (b) to prepare cost estimates on all proposed bills which anticipate government expenditures;
- (c) to prepare cost estimates on all proposed bills that anticipate expenditures by county, municipal, or special district governments;
- (d) to prepare cost estimates on all proposed bills that anticipate direct expenditures by any Utah resident, and the cost to the overall impacted Utah resident population;
- (e) to prepare a review and analysis of revenue estimates for existing and proposed revenue acts;
- (f) to report instances in which the administration may be failing to carry out the expressed intent of the Legislature;
- (g) to direct attention to each new proposed service contained in the Governor's budget;
- (h) to direct attention to each budget item previously denied by the Legislature;
- (i) to propose and analyze statutory changes for more effective operational economics or more effective administration;
- (j) to prepare, after each session of the Legislature, a summary showing the effect of the final legislative program on the financial condition of the state;
- (k) to conduct organizational and management improvement studies;
- (l) to prepare and deliver upon request of any interim committee or the Legislative Management Committee, reports on the finances of the state and on anticipated or proposed requests for appropriations;
- (m) to recommend areas for research studies by the executive department or the interim committees;
- (n) to assist in prescribing the format for the presentation of the Governor's budget to facilitate program and in-depth review of state expenditures in accordance with Sections 63-38-14 and 63-38-15;
- (o) to recommend to the appropriations subcommittees the agencies or programs for which an in-depth budget review should be requested, and to recommend to the Legislative Management Committee the priority in which the request should be made;

Commerce and Revenue Appropriation Subcommittee

The Commerce and Revenue Appropriations Subcommittee reviews the management and budgetary issues of ten state agencies. Some of the key issues include (Not in priority order):

Funding Based on Revenue Generated - A number of agencies generate revenue that goes directly to the General Fund or to a special fund that supplements the General Fund. The organization then receives a separate appropriation. Often additional funds are generated while base funding to assure maximum efficiency and effectiveness are seldom appropriated due to the “lack of General Funds”. Agencies affected include the Alcoholic Beverage Control Commission, the Department of Commerce, Department of Insurance, Labor Commission and the Utah State Tax Commission. (There are probably others in other committees.)

Funding of Market Comparability Adjustments - The legislature has funded market comparability adjustments from “turnover and other savings” for the last several years. These are ongoing budget requirements that effectively reduce an agency’s overall budget. These savings can only realistically be used once or at most twice.

Year 2000 Compliant Systems - Most agencies are in the midst of assessing and correcting systems to assure compliance with Year 2000 standards. Funding needs range from \$100,000 to over \$800,000 per agency.

Welfare Reform - Changes are taking place in the federal government regarding the management of welfare activities and budgetary allocations. Time limits and organizational restructuring may challenge the successful efforts towards self-sufficiency for some people. What does this mean in Utah?

Electric Industry Deregulation - The electric industry is being deregulated across the country. How will this affect Utah and should the Public Service Commission be doing something more or something less?

UTAX - This is the Tax Commission’s multi-million dollar project to replace and upgrade several tax systems. An installment of \$8.5 million is requested. Is it worth the cost and will the new system overcome the Year 2000 problem?

Among those items listed above, the Commerce and Revenue Appropriation Subcommittee is responsible for legislative, fiscal, and management oversight of the following organizations and associated programs (Organizational program listing follows):

Agency: Alcoholic Beverage Control Richard Pearson (Admin Services Mgr) 977-6838

Programs: Executive Director's Office-Kenneth Wynn-801-977-6800
Administration-977-6800
Operations
Warehouse-Wayne Olsen-977-6800
Stores and Agencies-Martin Shill-Regional Manager

Agency: Department of Commerce Kathy Berg (Finance Officer) 530-6487

Programs: Administration-Executive Director - Doug Borda-530-6701
Division of Securities - Mark Griffin - Director-530-6607
Division of Corporations and Commercial Code- Lorena Rizzo Woods-530-6027
Division of Consumer Protection-Francine Giani-530-6601
Division of Occupational and Professional Licensing-Craig Jackson-530-6039
Division of Real Estate-Ted Boyer-530-6762
Real Estate Education
Division of Public Utilities-Richard Campbell-530-6675
Public Utilities - Professional and Technical Support
Committee of Consumer Services-Roger Ball-530-6644
Committee of Consumer Services Professional and Technical Support

Agency: Department of Financial Institutions Craig Kennedy (Chief Examiner) 538-8836

Programs: Administration - Commissioner Edward Leary-530-8854

Agency: Department of Insurance Julie Olearain (Finance Officer) 538-3806

Programs: Administration - Commissioner Merwin Stewart -538-3806
Insurance Relative Value Study
Insurance Fraud Program-David Lattin-531-5383

Agency: Labor Commission Gordon Linnett (Finance Officer) 530-6816

Programs: Administration Division- Commissioner Richard "Lee" Ellertson-530-6880
Industrial Accidents Division-Joyce Sewell-530-6988
Appeals Board
Adjudication Division
Safety Division
Workplace Safety Division
Anti-Discrimination Division
Occupational Safety and Health Division

Agency: Public Service Commission Julie Orchard (Commission Secretary)

Programs: Administration-Stephen Mecham-530-6716
Research and Analysis
Building Rent
Speech and Hearing Impaired

Universal Service Trust Fund

Agency: Utah Retirement Systems/PEHP

Programs: Retirement - Dee Williams-366-7301
Group Insurance - Lynn Baker 366-7509

Agency: Utah State Tax Commission Julie Alsop (Finance Officer) 297-3815

Programs: Administration Division-Rodney Marrelli-297-3845
Auditing Division-Craig Sandberg-297-4706
Multi-State Compact
Technology Management Division-297-2730
Tax Processing Division
Seasonal Employees
Collections Division
Property Tax Division-Sidney Willes-297-3684
Customer Service Division
Motor Vehicle Enforcement Division
License Plate Production Division
Liquor Profit Distribution

Agency: Workers' Compensation Fund of Utah Scott Westra (Finance Officer) 288-8003

Agency: Department of Workforce Services Barbara Gittins (Finance Officer) 526-4330

Programs: Executive Director's Office-Robert Gross-531-3780
Administrative Services
Finance Division-Ken Miller-526-5360
Human Resources-Marlo Wilcox-526-4332
Information Technology-Russell Smith-526-4303
Public Affairs-Mason Bishop-526-4331
Adjudication Division
Employment Development Division-Helen Thatcher-468-0177
Workforce Information and Payment Services
Regional Administration
Regional Operations
Temporary Assistance to Needy Families
Food Stamp Cash Out Program
Refugee Relocation Program
General Assistance
Supplemental Security Income
Work Toward Employment
Child Care

INTRODUCTION TO BUDGETING

DEFINITION: **BUDGET**

To budget is to allocate limited resources between competing priorities. This sub-committee will allocate money to various State government programs. There is not enough money to fully fund everything government would *like* to do. The **subcommittee** will decide which are the most important and which are the least important tasks to be done and the appropriate funding level for each program. The subcommittee recommendation is then considered by the Executive Appropriations Committee that allocates the overall level of funding for each Subcommittee.

THE PROCESS: A BRIEF SUMMARY

The state budgeting process begins with a request by the program and/or division which goes to the department (July/August) and then to the Governor (September/October). There it is analyzed, and the Governor makes a recommendation to the Legislature (December). The Legislature reviews the request, puts it in the form of legislation and then passes a bill (usually the last few days of the General Session) that determines the budget for each program.

Analysis of the Governor's budget is done by the Legislative Fiscal Analyst, a non-partisan office that works for the Legislature to help prepare the budget and determine the fiscal impact of proposed bills. The Governor's recommendation could include enhancements to revenue such as tax increases. He may, also, submit an alternative budget in addition to the original recommendation. The Analyst's recommendation to the Legislature does not include any enhancements, or anticipate the passage of any bills. Like the Governor, the Analyst must recommend a balanced budget to the Legislature, but because the revenue estimates are usually different, they will balance to different numbers.

All Utah State Legislators of both the House and the Senate sit on an appropriations subcommittee. These subcommittees review the program budgets of the various State agencies. The Subcommittee reviews the Governor's request, the Analyst's recommendation and then determines their own recommendation to the Executive Appropriations Committee. Once the request is approved by the Executive Appropriations Committee, it is written into an Appropriations Act which is submitted to both houses of the Legislature. When it is passed, it goes to the Governor for signature and implementation by the agencies.

The State does not budget on the calendar year, but on what is called the Fiscal Year, usually abbreviated FY, which extends from July 1 to June 30. This session the committee will make the budget for Fiscal Year 1999-00. That year is referred to in the singular according to the second half of the designation as FY 00. The fiscal year we are now in is FY 99 and ends on June 30, 1999.

FUNDS:

In the budget, money can come from several sources, and each source is called a fund. The following definitions will help you understand the different funds.

1. TAXES

The primary revenue source is the sales tax, although there are several other taxes and fees that also go into the General Fund. Personal income taxes and corporate franchise taxes go to the Uniform School Fund. The other funds have special restrictions, but General Funds can be spent at the discretion of the Legislature, as the Constitution allows.

2. FEDERAL FUNDS

The acquisition and administration of Federal Funds are regulated by the Federal Assistance Management Act. The Governor is authorized to accept, on behalf of the state, any federal assistance funds made available by an Act of Congress for programs that are consistent with the needs and goals of the state and its citizens and that are not prohibited by law. The Governor may not authorize any program that commits the Legislature for matching funds for future years unless the program has first been approved by the Legislature.

Generally, no money comes to the State from the federal government without strings attached. Each grant of funds will have different rules about how it can be spent. The rules for each grant will be explained when the Analyst presents the budget of the program that will get the funds. One string often used is the requirement that the state match the federal grant with money or services. Sometimes reducing State funding can trigger a reduction in federal funding. Programs so affected will have a special Federal Funds Sheet that the Analyst will bring to your attention.

Problems arise when federal funds are reduced or eliminated. There are exceptions, but the general recommendation is: Don't replace federal funds with State funds. The reasons for making an exception should be compelling.

3. DEDICATED CREDITS

This is money that is paid to an agency for services or goods and is dedicated to paying for the expenses of the agency. For example, money paid as admissions to the State Fair go to the Division of Expositions to help pay for expenses. By law, these funds must be spent before General Funds.

Some agencies tend to underestimate Dedicated Credits. If the agency received \$1,400,000 last year in Dedicated Credits, they may estimate \$1,300,000 for the coming year even though the overall budget has increased. They may then request that the difference be made up in General Funds. This gives the program a potential cushion.

In this type of fund, the Legislature can help set goals for the program. Will the goal for the next year be higher or lower? The Analyst will not recommend a decline in Dedicated Credits unless there are justifying circumstances. Be aware that if the goal is set too high, the program could be under funded.

4. LAPSING FUNDS

Since it is against the law to spend more than the Legislature has budgeted, it is likely that a

program will have some funds left over at the end of the Fiscal Year. Money that is left over at the end of the year reverts (or lapses) back to the General Fund, unless otherwise designated. In general, this fund can not be used as a source to fund future expenditures, but it will show up when looking back at the history of a program.

5. NON-LAPSING

The law is structured so that some funds do not lapse into the budgetary fund from which the appropriation was made at the end of the fiscal year. These are called non-lapsing funds.

There is a tendency for agencies to spend all budgeted money before the end of the year so that it does not lapse. The Legislature can designate an appropriation as non-lapsing. This might be done when there is a specific task that will take an indeterminate amount of time. The money appropriated for flooding through the Disaster Relief is an example of non-lapsing funds.

OTHER BUDGETING TERMS AND CONCEPTS:

1. LINE ITEM

This is a term that applies to appropriation bills. Each appropriated sum is identified by the item number in the appropriations bill. In general, each line item appropriation goes to a division that may have several programs. Once the appropriation becomes law, the money can be moved around from program to program within the line item, but it cannot be moved from one line item to another. If you want money to be spent on one program and one program only, then you might consider recommending that it be a separate line item in the appropriation.

2. INTENT LANGUAGE

Intent language is added to appropriations bills to explain or put conditions on the use of line item appropriations. For example, an appropriation would be made non-lapsing by adding an intent statement to a line item appropriation, as follows: "It is the intent of the Legislature that these funds be non-lapsing." Intent language cannot be used to modify current statute.

3. SUPPLEMENTAL APPROPRIATION

During a Legislative Session it may be determined that not enough money was appropriated to a given program for the current year. The committee can then recommend to the Executive Appropriations Committee, more money in the form of a Supplemental Appropriation.

4. FTE

FTE is an abbreviation of Full Time Equivalent position or employee. One person working a full 40 hour week is equal to 1 FTE. Two people working part-time 20 hour weeks are equal to 1 FTE. 40 people working one hour a week are equal to 1 FTE, and so on. It is a method of standardizing the personnel count.

5. MARGINAL ANALYSIS

In a budgeting context, marginal analysis means examining the effect of the next dollar spent or cut from a budget. A good manager does not budget randomly. The best and most critical areas get money first. If there are cuts in a budget, the least critical areas will be cut first. Each additional dollar budgeted will return less benefit to the State than the previous dollar, and probably quite a bit lower than the average dollar spent. The first dollars budgeted return the greatest benefit to the State, each additional dollar returns less and less, with each new dollar lowering the average.

This is obviously the tool of choice for raising or reducing budgets. However, it is not uncommon to get an analysis like this: The average benefit to the state for every \$1,000 spent is X. Therefore, if you will give the program an additional \$100,000 the benefit to the State will be X times 100.

6. MULTIPLIERS

This is a term often used when trying to measure economic benefit to a community from a given expenditure. For example, a large company comes into Utah and spends a \$1,000,000. This is a hard number, you can look it up. Most of that money begins to circulate, the company buys supplies from local companies and the new employees buy food and new houses. The people that build houses buy supplies from local companies, and the employees buy food and they buy new houses too. This can go on indefinitely, as the money is traced through the system, because every time the money is spent it goes somewhere and it is spent again. The multiplier is an estimate of the subsequent economic benefit. To arrive at a multiplier, a lot of assumptions have to be made and with each assumption the number gets softer and softer. The best analysis does not rely on multipliers.

7. ANALYZING EFFECTIVENESS

Often, agencies will explain how busy they are and request more money. They will explain that they need more people to take care of the busyness, or show charts of their activity as evidence of effectiveness. Appropriations are not made to keep State employees busy. Ask yourself what the intended result is supposed to be and does the information given you measure the result.

For example, the Film Office does advertising, sends out brochures, makes telephone contacts, etc. Each of these might be measured and used to show the effectiveness of the office. In fact, these are not the results of their labors, these are their labors. The results expected by the Legislature are more films, commercials, and television shows done in Utah. Busy people can be as ineffective as lazy people if their work does not produce results. They might show that producer requests for information are at an all-time high, but the number of producer requests or a survey showing that producers have a better opinion of Utah than before, isn't the result intended. The results expected by the Legislature would include production dollars spent in Utah and the number of jobs created by industry activity.

MORE COMMON BUDGETING TERMS

Accounting period - A period for which, and at the end of which, financial statements are prepared.

Accrued - Recorded revenues when earned or expenditures as soon as they create liabilities for the benefit received, notwithstanding that the actual revenue collection or expenditure payment may occur at a later time.

Agency fund - Funds received and held by a governmental unit as an agent for others.

Allocation - The division of an appropriation figure into parts which are designated for expenditure by specific units or for specific purposes.

Appropriation - Funds allocated by legislative bill for various departments of government to make expenditures and incur obligations for specific purposes.

Approved by The Governor - Signature of the Governor on a bill passed by the Legislature.

Assets - Property owned by a governmental unit that has a monetary value.

Audit - An examination of documents, records, reports, systems of internal control, accounting and financial procedures, and other evidence of financial integrity. Three general categories of governmental audits are:

Financial - focusing on accountability for funds and assets,

Compliance - focusing on fulfillment of terms of a contract or agreement, and

Performance - focusing on the qualitative fulfillment of the programs objectives.

Balance Sheet - A statement of the assets, liabilities, and equities of a governmental fund as of a specified date.

Bill - Draft of a proposed law or statute presented to the Legislature for their consideration.

Bond - A written promise to pay a specified sum at a specified date or dates together with periodic interest at a specified rate.

Budget - Suggested allocation of state moneys and the proposed method of financing that allocation presented for consideration by the Legislature.

Calendar Year - A year beginning 1 January and ending 31 December.

Capital Outlays - Expenditures which result in the acquisition of or addition to fixed assets.

Cash Basis - Accounting under which revenues are recorded when received in cash and expenditures are recorded when actually paid.

Clearing Account - An account used to accumulate charges/or credits for subsequent distribution to accounts for which the charges/credits are allocable.

Cost Accounting - Accounting which accounts for all elements of cost in a given activity, or for a given purpose.

Current Year - The year starting last July 1 and ending next June 30.

Debt - Any obligation resulting from borrowing money or from the purchase of goods and services on deferred payment terms.

Debt service - The money required to pay the current outstanding interest payments on existing obligations according to the terms of the obligations.

Deficit - The excess of the liabilities of any fund over its assets or the excess of expenditures over revenues during a given accounting period.

Depreciation - That portion of the value of a fixed asset which is lost due to wear, deterioration or obsolescence which is charged to the current accounting period.

Encumbrance - An obligation in the form of purchase orders, contracts or salary commitments which are chargeable to an appropriation and for which a portion of an appropriation is reserved.

Enterprise Fund - A fund established by a governmental unit to operate similar to a business enterprise. Used by governmental units that cover most or all of their operating costs through user charges.

Facility - A specific location for which revenues and costs are gathered for management purposes.

Federal Fiscal Year - The 12 month period starting October 1st and running through September 30th, which the federal accounting system is designed to follow.

Fiscal Note - The estimate of the Legislative Fiscal Analyst of the amount of present or future revenue and/or expenditure that will be effected by the passage of a given bill.

Fiscal Year - The **state** accounting period of 12 months starting July 1st and ending the following June 30th.

Fixed Assets - Long term assets which will normally last in excess of one year such as land, buildings, machinery, furniture, etc.

Forfeiture - The automatic loss of cash or property as a penalty for failure to meet legally binding provisions of a contract or agreement.

Full Faith and Credit - A pledge of the general taxing power of the government for the payment of debt obligations.

Full Time Equivalent - An FTE is any combination of hours that would be the equivalent of a full time, 40 hour a week employee.

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts.

Grant - A contribution by one entity to another which is usually made in support of some specified function or goal.

Immediate Effect - Legislative action to render a law/appropriation effective at an earlier date than the normal course of events would allow.

Improvements - Buildings or other attachments to land which are intended to so remain.

Indirect Charges - Also called Overhead - expenses which cannot be exactly identified to a specific product or service that are often allocated rather than computed.

Initiative - A method of initiating legislation by the electorate.

Interim - The period between regular sessions of the Legislature.

Internal Service Fund - A fund established by a governmental unit to provide goods and services, primarily to other governmental agencies which will be financed through user charges.

Inventory - A detailed listing by quantity, description and value of fixed assets.

Investments - Securities and real estate held for the production of income.

Lapse - Means the automatic termination of an appropriation and the return of the money not expended to the fund.

Net Income - The excess of revenue minus expenses in an enterprise fund.

Obligations - Amounts which a governmental unit may be legally required to pay out of its resources.

Operating Expenses - Those costs which are necessary to the operations of an agency and its program(s).

Per Diem - Literally, per day, daily expense money rendered legislators and personnel.

Petty Cash - Money set aside for making change or paying small obligations for which the execution of a voucher and issuance of a check would not be cost effective.

Proforma - Meaning according to a set pattern or form.

Purchase Order - A document that authorizes the delivery of specified merchandise or services at charges specified for same.

Rebates - Refunds.

Referendum - A method by which a measure, adopted by the Legislature, may be submitted to a popular vote of the electorate.

Refund - An amount paid back or credit allowed because of over-collection or return of an object that had been sold.

Regulation - A rule or order of an agency promulgated under the authority of a statute passed by the Legislature.

Reimbursement - Cash or assets received as a repayment of the cost of work or goods by one governmental unit for another unit, department, corporation or individual.

Retained Earnings - The accumulated earnings of an Internal Service Fund (ISF) or Enterprise Fund (EF) which have been retained in the fund which are not reserved for any specific purpose.

Requisition - A written demand or request for specified goods or services.

Resources - The actual assets of a governmental unit.

Revenue - The yield of taxes and other sources of income that the state collects.

Schedules - A detailed listing in an orderly form.

Shared Revenue - Revenue levied by one governmental unit and distributed to one or more other governmental units.

Short-term Debt - Debts of less than one year.

Statute - A written law enacted by a duly organized and constituted legislative body.

Supplemental Appropriation - The adjustment of funds allocated over/under the original appropriation.

Surety Bond - A written commitment to pay damages for losses caused by the parties named due to non-performance or defalcation.

Taxes - Compulsory charges levied by a governmental unit.

Transfers - Movement of money from one governmental unit account to another governmental unit account.

Value - The measure of any thing in terms of money.

Voucher - The written document that evidences the propriety of transactions and indicates (usually) the amounts that are to be recorded.

